

VZCZCXRO2487
PP RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSR
DE RUEHVI #0365/01 0861447
ZNR UUUUU ZZH
P 271447Z MAR 09 ZDS
FM AMEMBASSY VIENNA
TO RUEHC/SECSTATE WASHDC PRIORITY 2209
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
INFO RUCNMEM/EU MEMBER STATES

UNCLAS SECTION 01 OF 02 VIENNA 000365

C O R R E C T E D COPY (CORECTED TEXT PARA 3)

SIPDIS, SENSITIVE

TREASURY FOR FTAT, OCC/SIEGEL, AND
OASIA/ICB/ATUKORALA
TREASURY PLEASE PASS TO FEDERAL RESERVE AND FINCEN
TREASURY ALSO PASS TO SEC/E.JACOBS

E.O. 12958: N/A

TAGS: [EFIN](#) [AU](#)

SUBJECT: Austrian Bank Rescue Shows Positive
Effects; "Cautious Optimism"

REF: (A) VIENNA 0108; (B) VIENNA 0060

VIENNA 00000365 001.2 OF 002

¶1. SUMMARY: The Austrian government's EUR 100 billion bank rescue package is showing positive effects across the financial sector. The interbank market is calmer with lower rates and improved liquidity; there is no credit crunch in Austria even though banks are being more selective about borrower qualifications. GoA state help does NOT restrict Austrian banks from using funds to (indirectly) support their subsidiaries in Central and Eastern Europe (CEE). Austrian banks' stocks have recently stabilized, supported by good earnings reports and better EU and IMF engagement in emerging Europe. END SUMMARY.

¶2. The GoA's October 2008 bank rescue package set aside
-- EUR 75 billion to guarantee interbank lending and bond issues (to improve liquidity)
-- EUR 15 billion for equity injections into banks and insurance companies (to assure solvency)
-- EUR 10 billion as additional cover for deposits in case of bank failures (NOTE: the GOA has issued an unlimited deposit guarantee for individuals and SMEs through the end of 2009).

Implementation of GoA Interbank Lending Guarantees
- - - - -

¶3. Austria's EUR 75 billion interbank lending guarantee has reportedly been a success. The GoA quickly established the Austrian Clearingbank AG (OeCAG), a special-purpose bank to strengthen market confidence by clearing interbank transactions, acting as an intermediary in the money market, and as issuer of money market instruments with maturities of 1-12 months. The GoA supports the OeCAG with a EUR 4 billion guarantee for loan assets and a EUR 5 billion guarantee for its interbank money market instruments (in particular commercial paper). OeCAG sanitizes transactions by accepting money market deposits and, in the same maturity band, offering interbank money market securities with a GoA guarantee. OeCAG also recycles loans on the basis of matching maturities and currencies. NOTE: OeCAG publishes its auction schedule and results
(<http://www.clearingbank.at/en/pages/default.aspx>).

¶4. The GoA also now guarantees individual bond issues, bond issues under a debt issuance program (DIP) or a medium-term note program (MTN), and the issuance of notes under commercial paper programs. There is no restriction of the amount of single facilities issued other than the EUR 75 billion overall limit (principal only, not including interest and other costs). GoA guarantees for new bond issues are available until June 30, 2009; extension beyond that deadline requires European Commission approval. The GoA provides unconditional and irrevocable guarantees to the holders of notes, protecting them against the issuer default. Issuers pay a fee for the guarantee based on market conditions. Limitations:
-- Maximum amount per issue is EUR 2 billion;
-- Maximum maturity 3 years (up to 5 years in well-founded cases); and
-- The issuing bank's Tier 1 capital ratio has to be at least 7%.

¶5. In 2008, the GoA issued guarantees totaling EUR 4 billion; since then, the GoA has guaranteed ten issuances with a total amount of EUR 11.05 billion, of which Erste Bank issued notes for EUR 2.5 billion, Raiffeisen Zentralbank EUR 2.75 billion, Volksbanken AG 2.0 billion, and Kommunalkredit Austria Bank EUR 3.8 billion. Another EUR 9 billion covers the aforementioned GoA guarantees for OeCAG, meaning EUR 51.75 billion (or 69%) of the GoA's guarantee facility is still available through at least June.

No Liquidity Shortage, No Credit Crunch
- - - - -

VIENNA 00000365 002.2 OF 002

¶6. According to interlocutors in the banking sector and Finance Ministry, the liquidity situation has improved in this quarter due to the GoA's bank rescue package and CDS spreads have come down again, reflecting a general calming of market worries about the CEE countries. Observers here point to greater IMF support and the EU's recent doubling of its balance-of-payments support facility to EUR 50 billion, along with the successful rollout of the U.S. financial rescue package over the past ten days, as reassuring interbank markets and non-Austrian market participants.

¶7. Commercial credit markets in Austria have also eased, and according to our sources (supported by the latest Austrian National Bank Statistics for the fourth quarter of 2008) there is no "credit crunch" as such. Lender scrutiny and loan terms are tighter than a year ago, but rates are moderate and terms are now less stringent than in the fourth quarter, again showing the effect of appropriate GoA support efforts.

No Restrictions on Helping Subsidiaries in the East
- - - - -

¶8. There are no specific restrictions in GoA equity injections or bond guarantees to prohibit additional funding to foreign subsidiaries. The only relevant condition is that a bank receiving a GoA equity increase or bond guarantee has to show that it provides a defined amount (in some cases, twice the amount received) in the form of loans or lease financing to Austrian SMEs and other businesses over a certain period, e.g. 3 years. Even so, "money is fungible," and GoA funds earmarked for lending in

Austria free up other capital for helping subsidiaries elsewhere. Leading Austrian banks continue to say they will not pull out of markets in CEE.

¶9. Conditions for GoA support are not generally onerous. The GoA fee for issuing its guarantee does not seem to be a deterrent (e.g., Erste Banks pays 50 basis points plus the median of the CDS spread over a certain period, totaling now some 90 basis points). Other conditions such as not using the money for aggressive growth strategies or a prohibition on non-conforming conditions for loans do not seem to create problems. The GoA floor for lending to Austrian entities may limit the amount of state support that banks choose to take.

¶10. Post will continue to report Septel on details of the GoA EUR 15 billion capital injection fund for banks and insurance companies.

KILNER